

Market Pulse

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In focus

The Market Pulse will return on January 3, 2022. Happy Holidays and have a great new year.

Stocks in the U.S. had a strong week, with the S&P 500 finishing the week at a record high for the 67th time this year. The 10-year U.S. Treasury yield also rose 14 basis points to 1.48% and the yield curve steepened, though it still remains near the lowest levels of 2021. All of this came despite the fact that inflation came in at the highest year-over-year level since 1982. The reason markets rallied in the face of this was that inflation met consensus forecasts, but didn't exceed them. This led to investors paring back the amount of Federal Reserve (Fed) rate hikes priced into the markets. Our read of this action is that investors believe the Fed is too hawkish, meaning that they expect a policy error to derail the economic recovery.

As we have written about, our view is that markets are pricing in too hawkish of a Fed, and we think this will normalize over time. Ultimately, our view is that the Fed will be patient and hike rates slower than market expectations. We are led to this view in part due to the 2/10-year U.S. Treasury yield curve. The yield curve spread currently sits at 83 basis points, which puts the Fed in a tough position. The interest rate-setting FOMC would not want to hike the yield curve into inversion, which is something that happened in 2019, after the 2015-2018 tightening cycle. Absent a marked rise in longer yields, the market's expectations for future Fed rate hikes would significantly raise the threat of another inversion. Given the stock market declines at the tail end of the last tightening cycle, we think the Fed will ultimately be patient to avoid a repeat of 2018.

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A look back

- Global stocks had a strong week with the MSCI ACWI gaining 3%, driven by equities in the U.S. The S&P 500 had its best weekly showing since February.
- The Consumer Price Index came in at 6.8% on a year-over-year basis, meeting consensus estimates. This was the highest headline reading since 1982.
- Olaf Scholz officially succeeded Angela Merkel as Chancellor of Germany, ending her 16-year tenure. Chancellor Scholz's Social Democrats are part of a three-way coalition that includes the Green Party and Free Democrat Party.

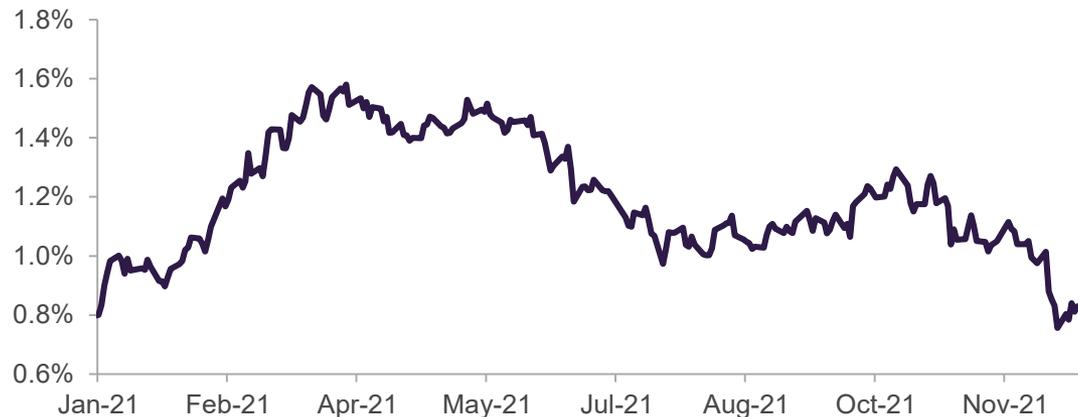
A look ahead

- Market participants will be keenly focused on this week's meeting of the Federal Open Market Committee (FOMC) and Chair Powell's press conference, looking for hints about policy changes.
- G-7 finance ministers are set to meet virtually on Monday to discuss recent inflationary pressures.
- Economic releases: NFIB Small Business Optimism, Producer Price Index, MBA Mortgage Applications, Retail Sales, Markit Manufacturing & Services, Housing Starts, Building Permits, Industrial Production, and FOMC rate decision.

Chart of the week – 2/10-year yield curve spread near lowest levels of the year

After steepening during the first quarter of the year, the 2/10-year U.S. yield curve spread is near its lowest levels of 2021. This flattening has occurred in the wake of the delta and omicron variants, a summer slowdown, and fears that an overly-hawkish Fed will derail the economic recovery.

10-year U.S. Treasury yield minus 2-year U.S. Treasury yield



Data Source: Truist IAG, Bloomberg

Market Pulse

As of December 10, 2021

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	3.06	2.75	5.39	17.11	19.94
S&P 500	3.85	3.23	9.69	27.16	30.17
MSCI EAFE (net)	2.44	2.98	0.60	8.99	11.48
MSCI Emerging Markets (net)	1.15	2.23	-0.97	-2.20	0.79
Dow Jones Industrials	4.05	4.45	6.76	19.71	22.05
NASDAQ Composite	3.61	0.60	8.18	21.28	25.88
S&P U.S. REIT	2.50	3.23	10.39	34.73	37.41
Bloomberg Commodity Index	1.15	1.15	-3.82	24.19	29.32
Bloomberg Aggregate	-0.72	-0.39	-0.12	-1.67	-1.34
ICE BofA US High Yield	0.62	1.08	-0.13	4.54	5.48
Bloomberg Municipal Bond Blend 1-15 Year	-0.01	0.05	0.28	0.77	1.03
ICE BofA Global Government xUS (USD Unhedged)	0.08	0.43	-0.72	-8.56	-7.49
ICE BofA Global Government xUS (USD Hedged)	-0.01	0.21	1.35	-0.67	-0.71
JP Morgan EMBI Global Diversified	0.49	1.51	-0.33	-1.69	-0.64

Rates (%)	12/10/21	9/30/21	6/30/21	3/31/21	12/31/20
Fed Funds Target	0.25	0.25	0.25	0.25	0.25
Libor, 3-Month	0.19	0.13	0.14	0.19	0.23
T-Bill, 3-Month	0.05	0.03	0.05	0.02	0.07
2-Year Treasury	0.66	0.28	0.25	0.16	0.11
5-Year Treasury	1.25	0.99	0.87	0.93	0.36
10-Year Treasury	1.48	1.52	1.44	1.73	0.91
30-Year Treasury	1.88	2.09	2.06	2.42	1.64
Bloomberg Aggregate (YTW)	1.76	1.56	1.50	1.61	1.12
Bloomberg Municipal Bond Blend 1-15 Year	0.88	0.84	0.76	0.87	0.77
ICE BofA US High Yield	4.51	4.08	3.85	4.27	4.24
Currencies	12/10/21	9/30/21	6/30/21	3/31/21	12/31/20
Euro (\$/€)	1.13	1.16	1.19	1.18	1.22
Yen (¥/\$)	113.42	111.57	110.99	110.50	103.25
Pound (\$/£)	1.32	1.35	1.38	1.38	1.37
Commodities	12/10/21	9/30/21	6/30/21	3/31/21	12/31/20
Crude Oil (WTI)	71.67	75.03	73.47	59.16	48.52
Gold	1,785	1,757	1,772	1,716	1,895
Volatility	12/10/21	9/30/21	6/30/21	3/31/21	12/31/20
CBOE VIX	18.69	23.14	15.83	19.40	22.75

U.S. style % total returns (S&P indexes)						
Week			YTD			
Value	Core	Growth	Value	Core	Growth	
3.21	3.85	4.36	21.76	27.16	31.83	Large
3.32	2.91	2.43	28.16	21.92	15.70	Mid
2.70	2.69	2.67	29.72	24.48	19.24	Small



Data Source: Truist, FactSet

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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg U.S. Corporate High Yield measures the USD-denominated high yield fixed-rate corporate bond market. Bonds are classified as high yield if they are rated below BBB by Moody's and S&P.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBBBI U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBBI Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBBBI U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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